

## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

**Date Issued:** June 21, 2007

**IBA Report Number:** 07-65

**City Council Docket Date:** June 25, 2007

**Item Number:** 200

**Subject:** MWWD Bid to Goal Memorandum of Understanding

### OVERVIEW

On May 21, 2007 the City Council approved the Metropolitan Wastewater Department's Business Process Reengineering (BPR), which combined elements of the Mayor's citywide BPR initiative with the Department's existing Bid to Goal program. The action approved at that time involved the reorganization of the Department, including the streamlining of operations and elimination of positions, which was reflected in the FY 2008 Budget.

The action currently requested by the Council is approval of the Memorandum of Understanding between the City and MWWD employees, pursuant to the Bid to Goal agreement. Whereas the reorganization, efficiencies and budgetary savings were approved on May 21 with the BPR, this requested action essentially memorializes the agreement between the management and labor.

### FISCAL/POLICY DISCUSSION

As described in IBA Report 07-53, the purpose of Bid-to-Goal is essentially to optimize the governmental organization by reengineering business practices and operations in order to attain benchmark service levels, and to then provide those service levels in a manner that is competitive with private market providers. In this way, BPR is a natural fit with Bid to Goal in that it also aims to systematically identify and implement efficiencies by assessing and modifying existing business practices and operations. In this instance, MWWD simply used the BPR process as the mechanism to identify the majority of efficiencies and cost savings that support the eventual Labor-Management Partnership (LMP) Bid.

The Bid to Goal process generally involves developing a statement of work that defines a discreet scope of work that is to be bid for. A competitive market analysis is then

performed, and a private market proposal is estimated to establish the mark against which public employees will compete. The private market proposal is designed to approximate the cost at which a private utility provider could perform the services defined in the statement of work. The next step is for the employees of the public utility to prepare an employee bid in an attempt to match the private market proposal. This involves assessing the organization in order to streamline operations and find efficiencies. When the employee bid is developed, the utility is said to be at its most efficient organization, or MEO. Finally, a Public Contract Operations Agreement is entered into, whereby public employees essentially commit to providing the defined statement of work at a specific cost level that is competitive with private organizations.

The Bid to Goal MOU currently under consideration reflects an agreement between City management and the impacted labor organizations regarding the parameters of the Bid to Goal contract, including performance targets and cost levels. Upon approval of the MOU, the Department will prepare the LMP Bid, to be approved by the Mayor, which defines more specifically how the policy goals set forth in the MOU will be achieved. The key elements of the MOU include the “goal” that is to be achieved; the provision of employee incentives; and accountability, including the terms and conditions for default. Each of these elements is discussed in greater detail below. The LMP Bid deals more with the execution and administration of the MOU, yet must be consistent with the goals and expectations defined in the MOU. Together, the MOU and the LMP Bid form the Public Contract Operations (Bid to Goal) Agreement.

The central element in the Bid to Goal MOU is the “goal,” which includes achieving certain key performance service levels at a maximum specified cost. The key performance service levels are listed on page 4 of the MOU, and are considered the key metrics to overall wastewater utility service delivery. The cost level at which these services must be performed, referred to as the “budget objective,” was determined with the assistance of an industry consultant to reflect the cost at which a private utility provider could reasonably be expected to perform identical in-scope services<sup>1</sup>. In this case, the budget objective is the FY 2008 Budget, less certain “pass through” expenditures as described on page 5 of the MOU. It should be noted that MWWD’s FY 2008 Budget incorporated BPR savings in order to achieve the Most Efficient Organization (MEO), which is comparable to the Private Market Proposal developed by the consultant.

The second key element in the MOU is in regard to employee incentives. It is understood that achieving the goal as specified in the MOU will depend on the ability of labor and management to continually identify and implement efficiencies to business practices and operations. In order to provide adequate employee incentive for achieving such ongoing optimization, this MOU establishes an Employee Efficiency Incentive Reserve (EEIR).

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<sup>1</sup> “In-scope” refers to a discreet statement of work that a private market provider would bid for. It does not include certain ancillary expenditures that are outside the Department’s core mission, such as expenditures related to the new ERP system.

The EEIR consolidates all existing gainsharing and pay-for-performance programs into a single, Department-wide employee incentive effort. Under the terms of the MOU, 50% of all savings achieved above and beyond the Department's Most Efficient Organization will be deposited in the EEIR, to be expended on behalf of Department employees based on recommendations from a Bid to Goal Labor-Management Committee. The potential uses of these funds are described on page 6 of the MOU. It is important to note that in the past employees have elected to use these funds for workplace improvements, such as the purchase and installation of defibrillators, and career enhancement, such as facility cross-training.

The third key element of the MOU describes the terms and conditions for default of the Bid to Goal agreement, as well as performance monitoring. Consistent with prior Bid to Goal agreements, the MOU establishes that the current Bid to Goal contract may be terminated for default if either the budget objective is not met (default for inefficiency), or if any three of the key performance service levels not be met (default for ineffectiveness). In addition, a new element has been included in the current MOU that allows the Mayor to terminate the agreement for convenience after one year. This provision was requested by the Mayor's office in order to allow for maximum flexibility in pursuing Managed Competition, or other optimization measures if deemed appropriate. Finally, the MOU provides for performance monitoring by requiring an annual performance report from the MWWD Director to the Deputy Chief Operating Officer for Public Works, the contents of which are listed on page 8 of the MOU. The IBA has requested, and the Department has agreed, to make this performance report available in a public format and to present the report to the appropriate Committee should the Council so choose.

## **CONCLUSION**

In summary, the Bid to Goal process essentially began with the development of a statement of work that defines the organization's core functions and forms the basis for a competitive bid. A consultant was retained to perform a competitive market analysis and to develop a private market proposal to accomplish the statement of work. The Department then utilized the BPR process to identify efficiencies and develop the Department's MEO, which was then used as the basis for MWWD's FY 2008 Budget. To memorialize the Bid to Goal agreement, the Department is now requesting Council approval of the Bid to Goal MOU, which will become the basis for the LMP Bid, to be approved by the Mayor. Together, the MOU and the LMP Bid form the Public Contract Operations (Bid to Goal) Agreement.

Over the last decade, the Bid to Goal program has been very successful in identifying efficiencies and optimizing business practices in order to keep MWWD competitive with the private market place. The employee incentive program is an invaluable way to keep

employees engaged in continual improvement in the organizations. The IBA supports the MWWD Bid to Goal program and the adoption of the MOU.

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